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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001179

SIPDIS

STATE FOR EAP/MLS, EB/TPP, INR/TNC  
TREASURY FOR OASIA: AJEWELL

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [BM](#)

SUBJECT: BURMA: BAD YEAR FOR MANDALAY BUSINESSES

REF: A. RANGOON 1139

[B](#). RANGOON 1073

[C](#). RANGOON 0542

Classified By: Econoff TLManlowe for Reasons 1.4 (B) AND (D)

1.(C) Summary: Arbitrary governmental controls on trade, information, and access to the outside world, combined with the depreciating kyat, conspire to make business decisions in Mandalay, such as where to invest, how to price, and what industries to develop, very difficult. Business owners are coping with tighter controls, focusing on the short term, and hoping that the situation will change, but they can't predict how. End summary.

#### Mandalay Businesses Facing Hard Times

[2](#). (C) During a September visit to Mandalay, Econoff and Econ Specialist heard from members of the business community that governmental interference and currency depreciation has created uncertainty about the future, forcing business owners to restrict their planning to the short term. Examples include:

-- One importer said he used to go to the China border two or three times a month to bring in electronic goods. Since business has declined 50% this year, he doesn't need to travel and makes his greatly reduced orders to brokers by phone. High exchange rates (kyat to the yuan and to the dollar) and reduced local purchasing power have severely affected his business. He must pay customs duties in advance, and his costs for rent and for his generator are almost \$3000/month.

-- A businessman who distributes consumer products to central Burma and northern border areas said higher prices that reduced demand had made this a difficult year. Production costs in Burma of items such as health and beauty products and detergent had risen 30%, he said. The firm had raised prices only 20%, which had still driven customers away. Competition from cheaper Chinese goods also hurt sales.

-- A trader in beans and pulses for domestic and export markets said that business had declined 25-30% this year because higher prices reduced local demand.

-- The owner of an IT firm bemoaned the overall lack of Information and Computer Technology (ICT) and IPR knowledge. The networking software his firm developed for Burmese banks, hospitals and universities cannot be utilized, he said, because users lack basic skills and funds for training, service, and repairs. His business also suffers because the best programmers leave the country for better jobs. His efforts to develop skills and awareness about IT have been stymied by the government's ban (since the April bombing -- ref C) on seminars and conferences open to the public.

-- Local officials told manufacturing and wholesale trade businesses to move into one of Mandalay's 'industrial zones'. These zones are, in reality, groupings of wholesale, retail, manufacturing, commercial and some residential buildings. They appear to be an attempt to collect the industrial activities in a few places, not an effort to create synergies or provide reliable infrastructure. Each business must use their own generators during the daily power cuts.

-- A relatively successful manufacturer of trucks and generators seeks new business options, because, he said, he expects problems in the future and he must be ready to change his line of work.

-- Occupancy rates at the two top hotels in Mandalay were at 10-30%, and managers hoped the end of the rainy season would bring in enough tourists to make operations less financially draining.

-- All business representatives who trade across the borders commented on the tightened controls instituted in August (ref B), and complained that they further delayed transactions. These delays resulted in additional lost revenue because of recent rapid kyat depreciations (ref A) that occurred between the time of ordering and the time of payment or sale.

-- In the city, most open air markets we observed were busy,

but stores had few customers. From all our conversations with business owners, it was clear that Mandalay consumers were purchasing less.

#### The Jobs To Have

13. (C) Though the majority of Mandalay businessmen we met described difficulties, two specialty areas appear to be thriving: border brokering and tuition schools.

-- Business representatives involved in border trade highlighted the important (and still lucrative) work of border brokers. Brokers provide many services on and across the Thai and Chinese borders, including acquiring goods, paying foreign currency transactions, transporting goods, and relaying orders and other communications. Their fees and commissions move up and down with the currency values, and small traders rely on their expertise, experience and networks.

-- The owner of a school in nearby Pyin U Lwin (formerly Maymyo) that boards and teaches children outside of their public school hours (known in Burma as "tuition schools") was the only interlocutor who expressed plans for expansion and improvements. His school, known for strict controls and long hours, helps students excel on graduation exams, improving their chances of getting a coveted spot in one of the few prestigious Burmese universities.

Comment: Adapt, Adjust, Survive

14. (C) Although almost every businessman we met reported difficulties and declining profits during the past year, they all planned to continue their work. They are sticking to what they know, and have no plans to expand or diversify. Though frustrated by the difficult environment, no one with whom we spoke expressed the belief that business representatives had a role in making changes. Adapting and adjusting to changing GOB regulations and practices, they concentrate on surviving and providing for their families and employees. Their focus is on the present, and their plans extend only to the near term. End comment.  
Villarosa